

MARION INDEPENDENT SCHOOL DISTRICT  
MARION, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2004

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# MARION INDEPENDENT SCHOOL DISTRICT

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2003 Election)		
Thomas Thurman	President	2005
Donald B. Norton II	Vice President	2004
George Bushlack	Board Member	2003
Virginia Folkers	Board Member	2003
Mary Ames	Board Member	2004
Dan Barkley	Board Member	2005
Connie Bennett	Board Member	2005
<u>Board of Education</u>		
(After September 2003 Election)		
Thomas Thurman	President	2005
Donald B. Norton II	Vice President	2004
Tom Bullis	Board Member	2006
Dennis Walters	Board Member	2006
Mary Ames	Board Member	2004
Dan Barkley	Board Member	2005
Connie Bennett	Board Member	2005
<u>School Officials</u>		
Nicolas Hobbs	Superintendent	2004
David Bradley	District Secretary/Treasurer	2004
Matthew Novak	Attorney	2004
Brian Gruhn	Attorney	2004
Iris Muchmore	Attorney	2004

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Marion Independent School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Marion Independent School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Marion Independent School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2004 on our consideration of Marion Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 16 and 48 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion Independent School District's basic financial statements. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) were audited by other auditors whose report expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa  
October 28, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Marion Independent School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

This is the second year that the District has implemented new reporting standards with significant changes in content and structure. The comparisons from the two past fiscal years should help explain the District's financial position and results of operations.

### Financial Highlights

- General Fund revenues increased from \$14,577,161 in fiscal 2003 to \$15,086,399 in fiscal 2004, while General Fund expenditures increased from \$14,341,861 in fiscal 2003 to \$15,532,371 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$1,340,252 in fiscal 2003, to \$895,460 in fiscal 2004, a 33% decrease from the prior year.
- The increase in General Fund revenues was attributable to a 13% increase (+\$350,000) in tuition revenues and a 4% increase (+\$250,000) in state aid in fiscal 2004. The District did not receive over \$177,000 of budget revenues from the state because of an across-the-board cut of 2.5%. In addition to this, the State under-funded the utility replacement (excise) tax by over \$34,000. So the District did not receive more than \$210,000 that had been budgeted by the District and previously allocated by the State. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and additional staffing needed for the increased number of students being served.
- The main reason for the increase in tuition revenues was an increase of 102 students in the Marion Home School Assistance Program. The total enrollment in that program grew from 449 students in FY03 to 551 students in FY04.

## Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as Food Services and the Student Built House Program.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others. The District took Board action several years ago and moved all of the District's fiduciary funds to the ownership of the Marion Independent School District Foundation.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

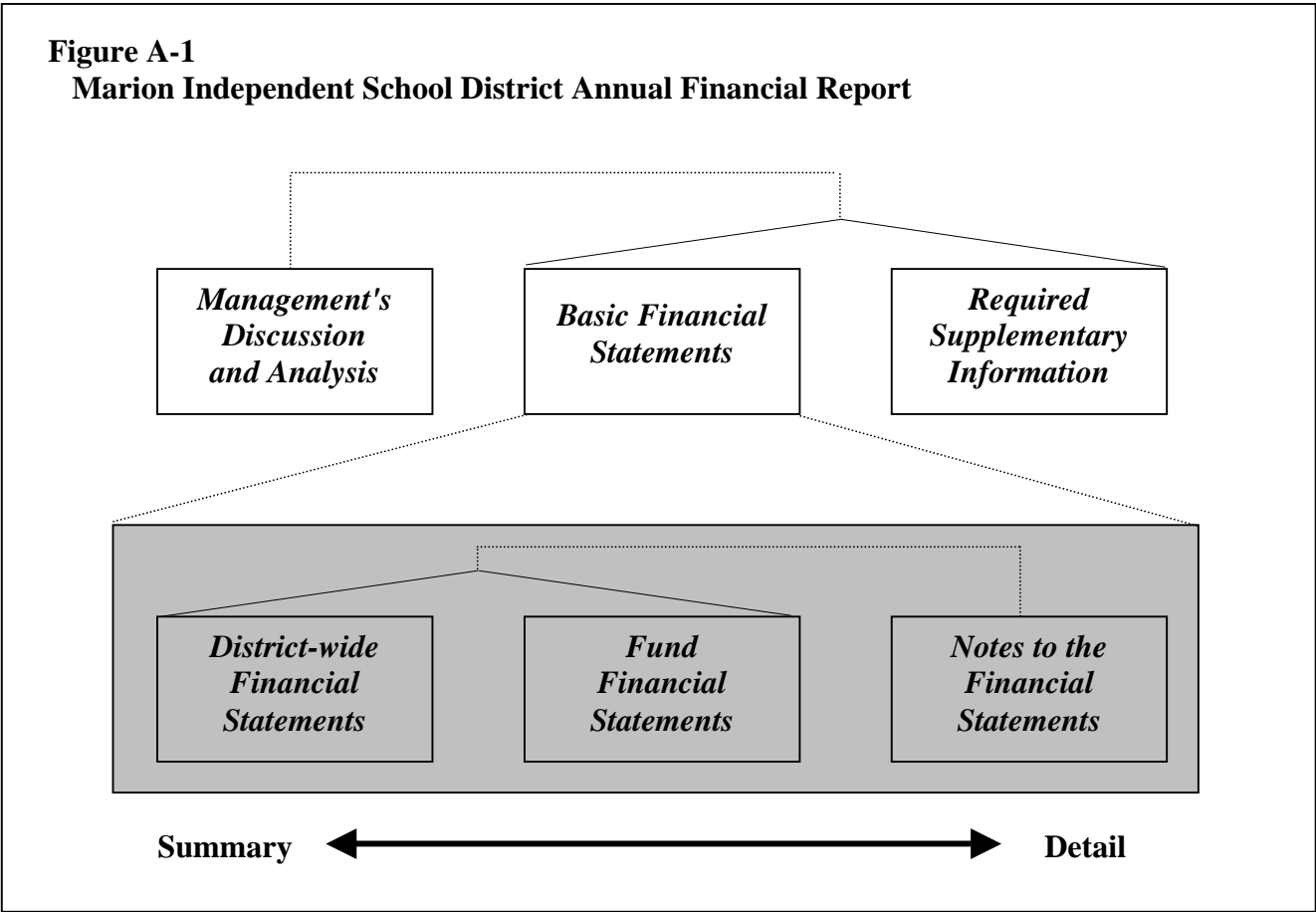


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b> <b>Major Features of the District-Wide and Fund Financial Statements</b>				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and the student built house program	<a href="#">Marion does not administer resources on behalf of someone else, such as scholarship programs</a>
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Statement of fiduciary net assets</a></li> <li>• <a href="#">Statement of changes in fiduciary net assets</a></li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	<a href="#">Accrual accounting and economic resources focus</a>
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	<a href="#">All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can</a>
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	<a href="#">All additions and deductions during the year, regardless of when cash is received or paid</a>

## District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.



The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax, state aid and open enrollment tuition finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program and student built house program are included here.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as Physical Plant and Equipment funds.

The District has two kinds of funds. Most Iowa school districts have three kinds of funds, but Marion Independent School District doesn't utilize fiduciary funds.

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
  - The District's governmental funds include the General Fund, Student Activity Fund, PPEL Fund, PERL Fund, Management Levy Fund, Debt Service Fund and Capital Projects Fund.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
- The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, the MDE Student Store Fund and The Student Built House Fund.
- *Fiduciary funds:* The District has no fiduciary funds as the School Board has transferred these funds to the Marion Independent School District Foundation.

## Financial Analysis of the District as a Whole

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003.

Figure A-3

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$7,712,532	\$9,124,840	\$308,334	\$241,056	\$ 8,020,866	\$ 9,365,896	-14.36%
Capital assets	<u>10,207,677</u>	<u>10,015,517</u>	<u>21,455</u>	<u>21,873</u>	<u>10,229,132</u>	<u>10,037,390</u>	1.91%
Total assets	<u>17,920,209</u>	<u>19,140,357</u>	<u>329,789</u>	<u>262,929</u>	<u>18,249,998</u>	<u>19,403,286</u>	-5.94%
Long-term obligations	6,014,583	6,526,578	-	-	6,014,583	6,526,578	-7.84%
Other liabilities	<u>6,509,258</u>	<u>7,339,633</u>	<u>42,167</u>	<u>4,263</u>	<u>6,551,425</u>	<u>7,343,896</u>	-10.79%
Total liabilities	<u>12,523,841</u>	<u>13,866,211</u>	<u>42,167</u>	<u>4,263</u>	<u>12,566,008</u>	<u>13,870,474</u>	-9.40%
Net assets							
Invested in capital assets,							
net of related debt	4,206,410	3,499,345	21,455	21,873	4,227,865	3,521,218	20.07%
Restricted	338,465	375,537	-	-	338,465	375,537	-9.87%
Unrestricted	<u>851,493</u>	<u>1,399,264</u>	<u>266,167</u>	<u>236,793</u>	<u>1,117,660</u>	<u>1,636,057</u>	-31.69%
Total net assets	\$5,396,368	\$5,274,146	\$287,622	\$258,666	\$ 5,683,990	\$ 5,532,812	2.73%

The District's combined net assets increased 2.73% due primarily to the purchase of computer equipment and capital improvements of its facilities.

**Changes in net assets** – Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4

	Change in Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-2004
<b>Revenues</b>							
Program revenues							
Changes for service and sales	\$ 3,563,745	\$ 3,229,840	\$ 637,108	\$ 523,164	\$ 4,200,853	\$ 3,753,004	11.93%
Operating grants, contributions and restrictions interest	1,404,075	1,340,873	198,615	173,194	1,602,690	1,514,067	5.85%
Capital grants, contributions and restricted interest	-	-	-	-	-	-	0%
General revenues							
Property tax	5,457,624	5,388,768	-	-	5,457,624	5,388,768	1.28%
Unrestricted state grants	6,406,004	6,157,049	-	-	6,406,004	6,157,049	4.04%
Unrestricted investment earnings	15,409	20,712	1,287	963	16,696	21,675	-22.97%
Other	24,257	166,257	-	-	24,257	166,257	-85.41%
Total revenues	<u>16,871,114</u>	<u>16,303,499</u>	<u>837,010</u>	<u>697,321</u>	<u>17,708,124</u>	<u>17,000,820</u>	4.16%
<b>Program expenses</b>							
Instruction	10,756,282	9,836,772	-	-	10,756,282	9,836,772	9.35%
Support services	4,806,716	4,695,116	-	-	4,806,716	4,695,116	2.38%
Non-instructional programs	6,252	9,204	808,054	628,606	814,306	637,810	27.67%
Other expenses	1,179,642	1,317,001	-	-	1,179,642	1,317,001	-10.43%
Total expenses	<u>16,748,892</u>	<u>15,858,093</u>	<u>808,054</u>	<u>628,606</u>	<u>17,556,946</u>	<u>16,486,699</u>	6.49%
Change in net assets	<u>\$ 122,222</u>	<u>\$ 445,406</u>	<u>\$ 28,956</u>	<u>\$ 68,715</u>	<u>\$ 151,178</u>	<u>\$ 514,121</u>	-70.59%

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

## Governmental Activities

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

	<u>Total and Net Cost of Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 10,756,282	\$ 6,443,970
Support services	4,806,716	4,649,393
Non-instructional programs	6,252	6,252
Other expenses	<u>1,179,642</u>	<u>681,457</u>
Total expenses	<u>\$16,748,892</u>	<u>\$ 11,781,072</u>

- The cost financed by users of the District's programs was **\$3,563,745**. (Exhibit B Total Governmental Activities – Charges for Services revenues total.)
- Federal and state governments subsidized certain programs with grants and contributions totaling **\$1,404,075**. (Exhibit B, Total Governmental Activities, Operating Grants revenues total.)
- The net cost of governmental activities was financed with **\$5,457,624** in property tax, **\$6,406,004** in state foundation aid and **\$15,409** in interest income. (Exhibit B General Revenues section.)

## Business-Type Activities

Revenues of the District's business-type activities were **\$837,010** (Exhibit B Business-type activity revenue – Charges for services (\$637,108) + Operating Grants (\$198,615) and interest (\$1,287)) and expenses were **\$808,054** (Exhibit B – Business type activities expenses.) The District's business-type activities include the School Nutrition Fund, MDE School Store and Student-built House. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District increased meal prices by 3%. The District does consider meal increases only when deemed necessary to meet the obligations of the School Nutrition Fund.

## Financial Analysis of the District's Funds

As previously noted, the Marion Independent School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of **\$1,231,236**, (Exhibit C, Total Fund Balances) which is **\$580,176 less than** last year's ending fund balances of **\$1,811,412**. (Exhibit E, Fund Balance, beginning of year.)

## **Governmental Fund Highlights**

- The District's General Fund Balance decreased from \$1,340,252 to \$895,460. There are several factors that affected this reduction. The first is that the District budgeted to spend \$199,665 from its cash reserves. In addition to that the Governor initiated a 2.5% across-the-board budget cut during the year. While a portion of the cut was later restored, the cut reduced State payments to the District's General Fund by \$177,527. Another \$34,405 in State excise taxes were not received due to State's under-funding in this area.
- Tuition-in revenues continued to grow with "net" increasing by nearly \$260,000, from \$1,716,746 to \$1,973,844.

## **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from **\$133,806** at June 30, 2003 to **\$144,374** at June 30, 2004, representing an increase of approximately 7.9%.

## **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. (Districts having private-purpose trust and agency funds are not required adopt a budget for these funds.) Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. The District amended its annual operating budget. A schedule showing the final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund are not presented in the budgetary comparison on page 48.

## **Legal Budgetary Highlights**

Even with the unexpected across-the-board state cut the District's total actual receipts were approximately \$40,000 more than the total budgeted receipts, a variance of only 0.2%. The increase came because the District did not budget the revenues from the sale of the student built house which amounted to \$178,000 and unanticipated revenues from both State and Federal sources were received.

Total expenditures were approximately \$244,000 less than the amended budget, a variance of 1.32%. The District amended the 2003-04 budget to reflect its new practice of budgeting at the maximum authorized budget. The District then manages or controls expenditures through its line-item budgets. As a result, the District's certified budget should align conservatively higher than the actual expenditures during the year.

The District's budget was not exceeded in total; however, expenditures did exceed the budget in the **Instruction functional area**.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2004, the District had invested **\$10,229,132**, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a **net increase of 1.91% from last year**. More detailed information about capital assets is available in Note 1D and Note 5 to the financial statements. Depreciation expense for the year was **\$478,157**.

Governmental activities account for **\$10,207,677** with the remainder **\$21,455** in the Proprietary, School Nutrition Fund.

The District paid \$215,000 for a former church building located next to the High School and Starry Elementary in FY03. This facility is being used as the new home for the Marion Home School Assistance Program. This asset is shown as construction in progress since the work was not totally completed by June 30, 2004. **As of the end of the 2003-04 fiscal year, the District had spent a total of \$480,000 on remodeling the facility and making improvements to the site.**

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-04</u>
Land	\$ 695,344	\$ 695,344	\$ -	\$ -	\$ 695,344	\$ 695,344	0%
Construction in progress	470,158	10,360	-	-	470,158	10,360	4,338%
Buildings and improvements	7,922,100	8,188,673	-	-	7,922,100	8,188,673	-3.26%
Improvements, other than buildings	301,857	336,102	-	-	301,857	336,102	-10.19%
Furniture and equipment	818,218	785,038	21,455	21,873	839,673	806,911	4.06%
Totals	<u>\$10,207,677</u>	<u>\$10,015,517</u>	<u>\$21,455</u>	<u>\$21,873</u>	<u>\$10,229,132</u>	<u>\$10,037,390</u>	1.91%

### Long-Term Debt

At June 30, 2004, the District had **\$6,014,583** in general obligation and other long-term debt outstanding. This represents a **decrease of 7.84% from last year**. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District annually employs an early retirement policy which is to be reviewed annually by the Board. Currently, the District has no long-term early retirement obligations.

Figure A-7

	<u>Outstanding Long-term Obligations</u>		
	<u>Total</u>		<u>Total</u>
	<u>School District</u>		<u>Change</u>
	<u>2004</u>	<u>2003</u>	<u>2003-</u> <u>2004</u>
General obligation bonds	\$ 5,760,000	\$ 6,190,000	-6.95%
Capital loan notes	75,000	145,000	-48.28%
Compensated absences	13,316	10,406	27.96%
Contracts payable	<u>166,267</u>	<u>181,172</u>	-8.23%
Total	<u>\$ 6,014,583</u>	<u>\$ 6,526,578</u>	-7.84%

### Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's enrollment has been increasing steadily for the past several years, primarily based on open enrollment in. The classrooms within the various schools are becoming full and fewer open enrollment-in students will be allowed to enroll due to limited classroom space. This will continue to negatively impact the steadily increasing tuition revenues that the district has relied upon.
- The District will receive approximately \$390,000 less in tuition revenues than was budgeted for the 2004-05 school year. This is because over 100 open enrolled-in students from the 2003-04 school year did not return to the district in the fall of 2004. This will cause the District's General Fund reserves and solvency ratio to drop proportionally for the fiscal year ending June 30, 2005.
- The less than expected number of open enrolled in students in the fall of 2004 is offset with an increase of 106 resident students. This increase of resident students will generate additional Regular Program dollars for the 2005-06 school year; however exchange of 100 open enrolled-in students for 100 resident students will negatively impact the District's tax levy. It is estimated that the levy to fund the Regular Program will increase by 87¢ for the 2005-06 school year. The School Board will have some latitude to adjust the total levy, but this increase in resident students will play a significant role in the final levy.
- The result of the above two factors in essence replaces the reduction of open enrollment tuition revenues with revenues generated by state aid and local property taxes. The biggest impact on the financial status of the district is that the later revenue is not generated until the following fiscal year.
- It will be imperative that the District make sound decisions during employee contract negotiations so that approximately half of the allowable growth "new money" for 2005-06 is available to backfill the loss of tuition revenues for 2004-05.

- The enrollment for Marion Home School Assistance Program grew from 557 students in 2003-04 to 594 in the fall of 2004. This increase is significantly less than was projected. These enrollment numbers contribute to the less than projected tuition revenues for the 2004-05 school year. There continues to be some concern expressed locally about this program and two front-page stories in the *Cedar Rapids Gazette* questioned the District's operation of this program. This may have had some negative impact on the enrollment numbers. The District will need to continue to monitor this program closely as it represents a significant portion of the open enrollment tuition dollars. Only 10% of the MHSAP students are residents of the district.
- The District's taxable valuation continues to grow due to new housing starts. A number of new homes have been built in the past year in a new housing development. This should help to keep the taxable valuations growing in the District.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Bradley, District Secretary and Business Manager, Marion Independent School District, 777 South 15<sup>th</sup> Street, Marion, IA 52302.



## Basic Financial Statements

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,222,654	\$ 126,682	\$ 2,349,336
Receivables:			
Property tax:			
Current year	64,491	-	64,491
Succeeding year	4,781,284	-	4,781,284
Accounts	23,005	34	23,039
Contract receivable	-	178,000	178,000
Note receivable (note 7)	47,752	-	47,752
Due from other governments	566,192	2,154	568,346
Interfund balances (note 4)	360	(360)	-
Inventories	-	1,824	1,824
Prepaid expenses	6,794	-	6,794
Capital assets, net of accumulated depreciation (note 5)	10,207,677	21,455	10,229,132
<b>Total assets</b>	<b>17,920,209</b>	<b>329,789</b>	<b>18,249,998</b>
<b>Liabilities</b>			
Accounts payable	161,945	9,139	171,084
Salaries and benefits payable	1,432,523	5,208	1,437,731
Accrued interest payable	27,962	220	28,182
Operating loan payable	-	27,600	27,600
Deferred revenue:			
Succeeding year property tax	4,781,284	-	4,781,284
Other	49,099	-	49,099
Early retirement payable	56,445	-	56,445
Long-term liabilities (note 6):			
Portion due within one year:			
Bonds payable	450,000	-	450,000
Notes payable	75,000	-	75,000
Contract payable	49,965	-	49,965
Compensated absences	13,316	-	13,316
Portion due after one year:			
Bonds payable	5,310,000	-	5,310,000
Contract payable	116,302	-	116,302
<b>Total liabilities</b>	<b>12,523,841</b>	<b>42,167</b>	<b>12,566,008</b>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 4,206,410	\$ 21,455	\$ 4,227,865
Restricted for:			
State grants	25,562	-	25,562
Management levy	157,877	-	157,877
Public education and recreation levy	45,166	-	45,166
Physical plant and equipment levy	23,768	-	23,768
Other special revenue purposes	83,647	-	83,647
Capital projects	2,445	-	2,445
Unrestricted	851,493	266,167	1,117,660
Total net assets	\$ <u>5,396,368</u>	\$ <u>287,622</u>	\$ <u>5,683,990</u>

See notes to financial statements.

## MARION INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 7,217,289	\$ 2,717,158	\$ 498,571	\$ -
Special instruction	2,460,532	438,379	230,088	-
Other instruction	1,078,461	374,373	53,743	-
	<u>10,756,282</u>	<u>3,529,910</u>	<u>782,402</u>	<u>-</u>
Support services:				
Student services	647,126	1,744	46,382	-
Instructional staff services	716,121	-	63,113	-
Administration services	1,628,413	-	4,580	-
Operation and maintenance of plant services	1,434,494	10,013	-	-
Transportation services	360,230	22,078	9,413	-
Central support services	20,332	-	-	-
	<u>4,806,716</u>	<u>33,835</u>	<u>123,488</u>	<u>-</u>
Non-instructional programs	<u>6,252</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	106,520	-	-	-
Long-term debt interest and fiscal charges	298,004	-	-	-
AEA flowthrough	498,185	-	498,185	-
Depreciation (unallocated) *	276,933	-	-	-
	<u>1,179,642</u>	<u>-</u>	<u>498,185</u>	<u>-</u>
Total governmental activities	16,748,892	3,563,745	1,404,075	-
Business-Type Activities:				
Non-instructional programs:				
Food service operations	646,862	457,542	198,615	-
School store	1,645	1,566	-	-
Student built house	159,547	178,000	-	-
Total business-type activities	<u>808,054</u>	<u>637,108</u>	<u>198,615</u>	<u>-</u>
Total	\$ 17,556,946	\$ 4,200,853	\$ 1,602,690	\$ -

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (4,001,560)	\$ -	\$ (4,001,560)
(1,792,065)	-	(1,792,065)
(650,345)	-	(650,345)
(6,443,970)	-	(6,443,970)
(599,000)	-	(599,000)
(653,008)	-	(653,008)
(1,623,833)	-	(1,623,833)
(1,424,481)	-	(1,424,481)
(328,739)	-	(328,739)
(20,332)	-	(20,332)
(4,649,393)	-	(4,649,393)
(6,252)	-	(6,252)
(106,520)	-	(106,520)
(298,004)	-	(298,004)
-	-	-
(276,933)	-	(276,933)
(681,457)	-	(681,457)
(11,781,072)	-	(11,781,072)
-	9,295	9,295
-	(79)	(79)
-	18,453	18,453
-	27,669	27,669
(11,781,072)	27,669	(11,753,403)

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs

---

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

\* = This amount excludes the depreciation that is included  
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ 4,442,683	\$ -	\$ 4,442,683
708,521	-	708,521
306,420	-	306,420
6,406,004	-	6,406,004
15,409	1,287	16,696
24,257	-	24,257
11,903,294	1,287	11,904,581
122,222	28,956	151,178
5,274,146	258,666	5,532,812
<u>\$ 5,396,368</u>	<u>\$ 287,622</u>	<u>\$ 5,683,990</u>

## MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<hr/>				
Assets				
Cash and pooled investments	\$ 2,094,975	\$ 39,640	\$ 397,376	\$ 2,531,991
Receivables:				
Property tax:				
Current year	47,907	8,372	8,212	64,491
Succeeding year	3,759,575	647,076	374,633	4,781,284
Interfund receivable (note 4)	-	13,262	20,360	33,622
Accounts	7,235	-	15,770	23,005
Note receivable (note 7)	47,752	-	-	47,752
Due from other governments	566,192	-	-	566,192
Prepaid expenses	6,794	-	-	6,794
	<hr/>			
Total assets	\$ 6,530,430	\$ 708,350	\$ 816,351	\$ 8,055,131
	<hr/>			
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over bank balance	\$ 239,497	\$ 44,224	\$ 25,616	\$ 309,337
Accounts payable	136,303	-	25,642	161,945
Salaries and benefits payable	1,431,843	-	680	1,432,523
Interfund payable (note 4)	20,000	-	13,262	33,262
Deferred revenue:				
Succeeding year property tax	3,759,575	647,076	374,633	4,781,284
Other	47,752	-	1,347	49,099
Early retirement payable (note 6)	-	-	56,445	56,445
Total liabilities	5,634,970	691,300	497,625	6,823,895
	<hr/>			
Fund balance:				
Reserved for:				
Phase III	10,538	-	-	10,538
State grants	15,024	-	-	15,024
Debt service	-	17,050	-	17,050
Unreserved:				
Reported in nonmajor Special				
Revenue Funds	-	-	316,281	316,281
Undesignated	869,898	-	2,445	872,343
Total fund balances	895,460	17,050	318,726	1,231,236
	<hr/>			
Total liabilities and fund balances	\$ 6,530,430	\$ 708,350	\$ 816,351	\$ 8,055,131
	<hr/>			

See notes to financial statements.



MARION INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2004

Total fund balances of governmental funds	\$ 1,231,236
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	10,207,677
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(27,962)
Long-term liabilities, including bonds, notes, and contracts payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(6,014,583)</u>
Net assets of governmental activities	<u>\$ 5,396,368</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2004

	General	Debt Service	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 4,050,030	\$ 707,797	\$ 694,222	\$ 5,452,049
Tuition	3,078,582	-	-	3,078,582
Other	164,594	1,371	378,711	544,676
Intermediate sources	3,623	-	-	3,623
State sources	7,404,041	724	710	7,405,475
Federal sources	385,529	-	-	385,529
Total revenues	15,086,399	709,892	1,073,643	16,869,934
Expenditures:				
Current:				
Instruction:				
Regular instruction	7,162,820	-	27,298	7,190,118
Special instruction	2,452,062	-	8,470	2,460,532
Other instruction	681,366	-	410,500	1,091,866
	10,296,248	-	446,268	10,742,516
Support services:				
Student services	647,126	-	-	647,126
Instructional staff services	705,895	-	10,226	716,121
Administration services	1,434,317	-	160,362	1,594,679
Operation and maintenance of plant services	1,546,568	-	26,855	1,573,423
Transportation services	383,700	-	-	383,700
Central and other support services	20,332	-	-	20,332
	4,737,938	-	197,443	4,935,381
Non-instructional programs	-	-	6,252	6,252
Other expenditures:				
Facilities acquisition	-	-	457,804	457,804
Long term debt:				
Principal	-	514,905	-	514,905
Interest and fiscal charges	-	296,247	-	296,247
AEA flowthrough	498,185	-	-	498,185
	498,185	811,152	457,804	1,767,141
Total expenditures	15,532,371	811,152	1,107,767	17,451,290
Deficiency of revenues under expenditures	(445,972)	(101,260)	(34,124)	(581,356)

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2004

	General	Debt Service	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Sale of equipment	\$ 1,180	\$ -	\$ -	\$ 1,180
Interfund transfers in (note 3)	-	96,525	384,230	480,755
Interfund transfers out (note 3)	-	-	(480,755)	(480,755)
Total other financing sources (uses)	<u>1,180</u>	<u>96,525</u>	<u>(96,525)</u>	<u>1,180</u>
Net change in fund balances	(444,792)	(4,735)	(130,649)	(580,176)
Fund balances beginning of year	<u>1,340,252</u>	<u>21,785</u>	<u>449,375</u>	<u>1,811,412</u>
Fund balances end of year	<u>\$ 895,460</u>	<u>\$ 17,050</u>	<u>\$ 318,726</u>	<u>\$ 1,231,236</u>

See notes to financial statements.

## MARION INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ (580,176)

Amounts reported for governmental activities in the statement of activities  
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 662,677	
Depreciation expense	<u>(470,517)</u>	192,160

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 514,905

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (1,757)

Some expenses reported in the statement of activities, including compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (2,910)

Change in net assets of governmental activities \$ 122,222

See notes to financial statements.

## MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

June 30, 2004

	<u>Nonmajor Enterprise Funds</u>
Assets	
Cash and cash equivalents	\$ 126,682
Accounts receivable	34
Contract receivable	178,000
Due from other governments	2,154
Inventories	1,824
Capital assets, net of accumulated depreciation	<u>21,455</u>
Total assets	<u>330,149</u>
Liabilities	
Accounts payable	9,139
Salaries and benefits payable	5,208
Interfund payable (note 4)	360
Accrued interest payable	220
Operating loan payable	<u>27,600</u>
Total liabilities	<u>42,527</u>
Net Assets	
Invested in capital assets	21,455
Unrestricted	<u>266,167</u>
Total net assets	<u>\$ 287,622</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	<u>Nonmajor Enterprise Funds</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>637,108</u>
Operating expenses:	
Non-instructional programs:	
Non-instructional operations:	
Salaries	264,125
Benefits	33,591
Purchased services	109,375
Supplies	379,315
Small equipment	4,179
Depreciation	7,640
Other	9,829
	<u>808,054</u>
Operating loss	<u>(170,946)</u>
Non-operating revenues:	
Interest on investments	1,287
State sources	7,800
Federal sources	190,815
Total non-operating revenues	<u>199,902</u>
Change in net assets	28,956
Net assets beginning of year	<u>258,666</u>
Net assets end of year	\$ <u><u>287,622</u></u>
See notes to financial statements.	

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	Nonmajor Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 457,508
Cash received from miscellaneous operating activities	1,566
Cash payments to employees for services	(296,617)
Cash payments to suppliers for goods or services	(434,938)
Net cash used in operating activities	<u>(272,481)</u>
Cash flows from non-capital financing activities:	
State grants received	7,800
Federal grants received	158,607
Operating loan proceeds	27,600
Net cash provided by non-capital financing activities	<u>194,007</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(7,222)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,287</u>
Net decrease in cash and cash equivalents	(84,409)
Cash and cash equivalents beginning of year	<u>211,091</u>
Cash and cash equivalents end of year	<u>\$ 126,682</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	Nonmajor Enterprise Funds
	<u>          </u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (170,946)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	7,640
Commodities used	32,096
(Increase) in accounts receivable	(34)
(Increase) in contract receivable	(178,000)
Decrease in inventories	26,099
Increase in accounts payable	8,985
Increase in salaries and benefits payable	1,099
Increase in interfund payable	360
Increase in accrued interest payable	<u>220</u>
Net cash used in operating activities	<u><u>\$ (272,481)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$32,096 of federal commodities.

See notes to financial statements.



## MARION INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2004

#### Note 1. Summary of Significant Accounting Policies

Marion Independent School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve, an early childhood special education program for four and five year olds, and a junior kindergarten for five year olds who are not ready for kindergarten. Additionally, the District either operates or sponsors various adult education programs and the Marion Home School Assistance Program, which serves more than 550 students. The geographic area served includes the City of Marion, Iowa, and the agricultural territory in Linn County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, Marion Independent School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Marion Independent School District has no component units which meet the Governmental Accounting Standards Board criteria.

#### B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary funds:

The District's enterprise funds are the School Nutrition Fund, MDE School Store Fund, and the Student Built House Fund. These funds are used to account for the food service, student-run store, and building and trades program operations of the District.

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Interfund Receivables and Payables – During the course of its operations, the District may have certain transactions between funds or pooled cash balances. To the extent that these transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures in the instruction functional area exceeded the amount budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 2. Cash and Pooled Investments (continued)

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$2,275,397 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue - Physical Plant and Equipment Levy	\$ 96,525
Capital Projects	Special Revenue - Physical Plant and Equipment Levy	347,000
Special Revenue - Physical Plant and Equipment Levy	Special Revenue - Public Education and Recreation Levy	<u>37,230</u>
Total		<u>\$ 480,755</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Interfund Receivables, Payables, and Balances

At June 30, 2004, the interfund receivables, payables, and balances consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Interfund balances between Governmental Funds:		
Pooled cash balances:		
Debt Service	Special Revenue - Physical Plant and Equipment Levy	\$ 13,262
Other receivables:		
Special Revenue - Student Activity	General	<u>20,000</u>
		<u>33,262</u>
Interfund balances between Proprietary and Governmental Funds:		
Other receivables:		
Special Revenue - Management Levy	Enterprise - Student Built House	<u>360</u>
Total		\$ <u><u>33,622</u></u>

Interfund balances between Governmental Funds are not included on the District-wide statement of net assets.

Interfund balances between Proprietary and Governmental Funds have been eliminated on the face of the District-wide statement of net assets.



MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 695,344	\$ -	\$ -	\$ 695,344
Construction in progress	10,360	470,158	10,360	470,158
Total capital assets not being depreciated	<u>705,704</u>	<u>470,158</u>	<u>10,360</u>	<u>1,165,502</u>
Capital assets being depreciated:				
Buildings	14,603,238	10,360	-	14,613,598
Improvements other than buildings	695,000	-	-	695,000
Furniture and equipment	3,362,428	192,519	387,900	3,167,047
Total capital assets being depreciated	<u>18,660,666</u>	<u>202,879</u>	<u>387,900</u>	<u>18,475,645</u>
Less accumulated depreciation for:				
Buildings	6,414,565	276,933	-	6,691,498
Improvements other than buildings	358,898	34,245	-	393,143
Furniture and equipment	2,577,390	159,339	387,900	2,348,829
Total accumulated depreciation	<u>9,350,853</u>	<u>470,517</u>	<u>387,900</u>	<u>9,433,470</u>
Total capital assets being depreciated, net	<u>9,309,813</u>	<u>(267,638)</u>	<u>-</u>	<u>9,042,175</u>
Governmental activities capital assets, net	<u>\$ 10,015,517</u>	<u>\$ 202,520</u>	<u>\$ 10,360</u>	<u>\$ 10,207,677</u>

## MARION INDEPENDENT SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004

## Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 304,847	\$ 7,222	\$ -	\$ 312,069
Less accumulated depreciation	282,974	7,640	-	290,614
Business-type activities capital assets, net	<u>\$ 21,873</u>	<u>\$ (418)</u>	<u>\$ -</u>	<u>\$ 21,455</u>

Depreciation expense was charged by the District to the following functions:

## Governmental activities:

## Instruction:

Regular

\$ 72,098

## Support services:

Administration

34,575

Operation and maintenance of plant services

26,108

Transportation

60,803

193,584

Unallocated depreciation

276,933

Total governmental activities depreciation expense

\$ 470,517

## Business-type activities:

Food service operations

\$ 7,640

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	General Obligation Bonds	Capital Loan Notes	Contract Payable	Compensated Absences	Total
Balance beginning of year	\$ 6,190,000	\$ 145,000	\$ 181,172	\$ 10,406	\$ 6,526,578
Additions	-	-	-	13,316	13,316
Reductions	430,000	70,000	14,905	10,406	525,311
Balance end of year	<u>\$ 5,760,000</u>	<u>\$ 75,000</u>	<u>\$ 166,267</u>	<u>\$ 13,316</u>	<u>\$ 6,014,583</u>
Due within one year	<u>\$ 450,000</u>	<u>\$ 75,000</u>	<u>\$ 49,965</u>	<u>\$ 13,316</u>	<u>\$ 588,281</u>

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed twenty years of service to the District, and the final ten years must be continuous years of service. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a certain percentage of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay. The applicable percentage is 50% for employees who retire in the first through fifth year of becoming eligible, 35% for employees who retire in the sixth year of eligibility, and 20% for employees who retire in the seventh year of eligibility. Early retirement benefits paid during the year ended June 30, 2004 totaled \$10,225. The cost of early retirement payments expected to be liquidated currently is recorded as a liability of the Special Revenue, Management Levy Fund in the fund financial statements and as a liability of the Governmental Activities in the District-wide financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 6. Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	4.20-6.00 %	\$ 450,000	\$ 265,668	\$ 715,668
2006	4.25-6.00	470,000	242,718	712,718
2007	4.25-4.30	495,000	218,456	713,456
2008	4.25-4.35	515,000	197,304	712,304
2009	4.35-4.40	540,000	175,186	715,186
2010	4.40-4.50	380,000	151,578	531,578
2011	4.50	345,000	134,798	479,798
2012	4.50	365,000	119,272	484,272
2013	4.60	390,000	102,848	492,848
2014	4.60	410,000	84,908	494,908
2015	4.70	440,000	66,048	506,048
2016	4.70	465,000	45,368	510,368
2017	4.75	495,000	23,512	518,512
Total		\$ 5,760,000	\$ 1,827,664	\$ 7,587,664

Capital Loan Notes

On September 1, 1999, the District issued capital loan notes in the amount of \$400,000 for completion of renovations and improvements to existing buildings. Details of the District's June 30, 2004 capital loan note indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	4.5 %	\$ 75,000	\$ 3,375	\$ 78,375

# MARION INDEPENDENT SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004

### Note 6. Long-Term Liabilities (continued)

#### Contract Payable

On April 15, 2003, the District entered into a contract to purchase a building to be used for its home school assistance program. Details of the District's June 30, 2004 contract indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	5.0 %	\$ 49,965	\$ 11,875	\$ 61,840
2006	5.0	56,719	5,121	61,840
2007	5.0	59,583	2,250	61,833
Total		<u>\$ 166,267</u>	<u>\$ 19,246</u>	<u>\$ 185,513</u>

### Note 7. Note Receivable

During the year ended June 30, 2004 the District entered into a surplus note agreement with the Metro Interagency Insurance Program in the amount of \$47,752. The District is to receive principal and interest at 1.5% from time to time until paid in full as funds become available. There is no repayment schedule.

### Note 8. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$577,297, \$535,700, and \$516,613 respectively, equal to the required contributions for each year.

### Note 9. Risk Management

Marion Independent School District is a member of the Metro Interagency Insurance Program (MIIP), an Iowa Code Chapter 28E organization. MIIP is a local government risk-sharing pool whose members include six public educational entities in central Iowa. MIIP was formed in 1990 for the purpose of establishing, operating and maintaining an insurance program for employee health and medical claims.

Each member's contributions to MIIP fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, MIIP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. The fund re-insures for stop-loss insurance for claims in excess of \$100,000 per year per individual. An insurance carrier is paid an administrative fee to process the claims.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 9. Risk Management (continued)

The total premiums paid into the plan by all six members from July 1, 2003 to June 30, 2004 were \$22,719,994, of which \$973,320 was paid by Marion Independent School District.

Marion Independent School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$498,185 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## Required Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –  
Budget and Actual (Accrual Basis) – All Governmental Funds  
and Proprietary Funds  
Required Supplementary Information  
Year Ended June 30, 2004

	Governmental Funds - Actual	Proprietary Funds - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	\$ 9,075,307	\$ 638,395	\$ 9,713,702	\$ 9,665,784	\$ 9,665,784	\$ 47,918
Intermediate sources	3,623	-	3,623	-	-	3,623
State sources	7,405,475	7,800	7,413,275	7,558,373	7,558,373	(145,098)
Federal sources	385,529	190,815	576,344	443,092	443,092	133,252
Total revenues	16,869,934	837,010	17,706,944	17,667,249	17,667,249	39,695
EXPENDITURES:						
Instruction	10,742,516	-	10,742,516	10,134,000	10,435,910	(306,606)
Support services	4,935,381	-	4,935,381	4,681,850	5,415,615	480,234
Non-instructional programs	6,252	808,054	814,306	617,500	879,381	65,075
Other expenditures	1,767,141	-	1,767,141	1,598,979	1,772,816	5,675
Total expenditures	17,451,290	808,054	18,259,344	17,032,329	18,503,722	244,378
Excess (deficiency) of revenues over (under) expenditures	(581,356)	28,956	(552,400)	634,920	(836,473)	284,073
Other financing sources, net	1,180	-	1,180	-	-	1,180
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(580,176)	28,956	(551,220)	634,920	(836,473)	285,253
Balance beginning of year	1,811,412	258,666	2,070,078	1,981,281	1,981,281	88,797
Balance end of year	\$ 1,231,236	\$ 287,622	\$ 1,518,858	\$ 2,616,201	\$ 1,144,808	\$ 374,050

See accompanying independent auditor's report.



## MARION INDEPENDENT SCHOOL DISTRICT

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. Encumbrances are not recognized on the budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$1,471,393.

During the year ended June 30, 2004, expenditures in the instruction functional area exceeded the amount budgeted.

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## Other Supplementary Information

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Physical Plant and Equipment Levy
Assets				
Cash and pooled investments	\$ 209,860	\$ 95,725	\$ 47,155	\$ 37,229
Receivables:				
Property tax:				
Current year	4,102	-	489	3,621
Succeeding year	90,379	-	-	284,254
Interfund receivable	360	20,000	-	-
Accounts	-	13,767	-	2,003
Total assets	<u>\$ 304,701</u>	<u>\$ 129,492</u>	<u>\$ 47,644</u>	<u>\$ 327,107</u>
Liabilities and Fund Equity				
Liabilities:				
Excess of warrants issued over bank balances	\$ -	\$ 25,616	\$ -	\$ -
Accounts payable	-	18,202	2,478	-
Salaries and benefits payable	-	680	-	-
Interfund payable	-	-	-	13,262
Deferred revenue:				
Succeeding year property tax	90,379	-	-	284,254
Other	-	1,347	-	-
Early retirement payable	56,445	-	-	-
Total liabilities	<u>146,824</u>	<u>45,845</u>	<u>2,478</u>	<u>297,516</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>157,877</u>	<u>83,647</u>	<u>45,166</u>	<u>29,591</u>
Total liabilities and fund equity	<u>\$ 304,701</u>	<u>\$ 129,492</u>	<u>\$ 47,644</u>	<u>\$ 327,107</u>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ 7,407	\$ 397,376
-	8,212
-	374,633
-	20,360
-	15,770
<u>\$ 7,407</u>	<u>\$ 816,351</u>

\$ -	\$ 25,616
4,962	25,642
-	680
-	13,262
-	374,633
-	1,347
-	56,445
<u>4,962</u>	<u>497,625</u>

<u>2,445</u>	<u>318,726</u>
<u>\$ 7,407</u>	<u>\$ 816,351</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	Special Revenue			
	Management	Student	Public	Physical
	Levy	Activity	Education and Recreation Levy	Plant and Equipment Levy
Revenues:				
Local sources:				
Local tax	\$ 346,800	\$ -	\$ 41,315	\$ 306,107
Other	514	374,767	-	3,200
State sources	355	-	42	313
Total revenues	347,669	374,767	41,357	309,620
Expenditures:				
Current:				
Instruction:				
Regular instruction	27,298	-	-	-
Special instruction	8,470	-	-	-
Other instruction	-	410,500	-	-
Support services:				
Instructional staff services	10,226	-	-	-
Administration services	160,362	-	-	-
Operation and maintenance of plant services	18,582	-	8,273	-
Non instructional programs	6,252	-	-	-
Other expenditures:				
Facilities acquisition	-	-	-	101,069
Total expenditures	231,190	410,500	8,273	101,069
Excess (deficiency) of revenues over (under) expenditures	116,479	(35,733)	33,084	208,551
Other financing sources (uses):				
Interfund transfers in	-	-	-	37,230
Interfund transfers out	-	-	(37,230)	(443,525)
Total other financing sources (uses)	-	-	(37,230)	(406,295)

	Capital Projects	Total
\$	- \$	694,222
	230	378,711
	-	710
	<u>230</u>	<u>1,073,643</u>

-	27,298
-	8,470
-	410,500
-	10,226
-	160,362
-	26,855
-	6,252
356,735	457,804
<u>356,735</u>	<u>1,107,767</u>

(356,505) (34,124)

347,000	384,230
-	(480,755)
<u>347,000</u>	<u>(96,525)</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	Special Revenue			
	Management	Student	Public Education and Recreation	Physical Plant and Equipment
	Levy	Activity	Levy	Levy
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ 116,479	\$ (35,733)	\$ (4,146)	\$ (197,744)
Fund balances beginning of year	41,398	119,380	49,312	227,335
Fund balances end of year	<u>\$ 157,877</u>	<u>\$ 83,647</u>	<u>\$ 45,166</u>	<u>\$ 29,591</u>

See accompanying independent auditor's report.



<u>Capital Projects</u>	<u>Total</u>
\$ (9,505)	\$ (130,649)
<u>11,950</u>	<u>449,375</u>
\$ <u><u>2,445</u></u>	\$ <u><u>318,726</u></u>

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF NET ASSETS  
NONMAJOR ENTERPRISE FUNDS

June 30, 2004

	School Nutrition	MDE School Store	Student Built House	Total
Assets				
Cash and cash equivalents	\$ 125,115	\$ 1,456	\$ 111	\$ 126,682
Accounts receivable	34	-	-	34
Contract receivable	-	-	178,000	178,000
Due from other governments	2,154	-	-	2,154
Inventories	824	-	1,000	1,824
Capital assets, net of accumulated depreciation	21,455	-	-	21,455
Total assets	<u>149,582</u>	<u>1,456</u>	<u>179,111</u>	<u>330,149</u>
Liabilities				
Accounts payable	-	-	9,139	9,139
Salaries and benefits payable	5,208	-	-	5,208
Interfund payable	-	-	360	360
Accrued interest payable	-	-	220	220
Operating loan payable	-	-	27,600	27,600
Total liabilities	<u>5,208</u>	<u>-</u>	<u>37,319</u>	<u>42,527</u>
Net Assets				
Invested in capital assets	21,455	-	-	21,455
Unrestricted	<u>122,919</u>	<u>1,456</u>	<u>141,792</u>	<u>266,167</u>
Total net assets	<u>\$ 144,374</u>	<u>\$ 1,456</u>	<u>\$ 141,792</u>	<u>\$ 287,622</u>

See accompanying independent auditor's report.

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 NONMAJOR ENTERPRISE FUNDS  
 Year Ended June 30, 2004

	School Nutrition	MDE School Store	Student Built House	Total
Operating revenues:				
Local sources:				
Charges for services	\$ 457,542	\$ 1,566	\$ 178,000	\$ 637,108
Operating expenses:				
Non-instructional programs:				
Non-instructional operations:				
Salaries	264,125	-	-	264,125
Benefits	33,591	-	-	33,591
Purchased services	2,079	-	107,296	109,375
Supplies	335,248	1,550	42,517	379,315
Small equipment	4,179	-	-	4,179
Depreciation	7,640	-	-	7,640
Other	-	95	9,734	9,829
	<u>646,862</u>	<u>1,645</u>	<u>159,547</u>	<u>808,054</u>
Operating income (loss)	(189,320)	(79)	18,453	(170,946)
Non-operating revenues:				
Interest on investments	1,273	14	-	1,287
State sources	7,800	-	-	7,800
Federal sources	190,815	-	-	190,815
Total non-operating revenues	<u>199,888</u>	<u>14</u>	<u>-</u>	<u>199,902</u>
Change in net assets	10,568	(65)	18,453	28,956
Net assets beginning of year	<u>133,806</u>	<u>1,521</u>	<u>123,339</u>	<u>258,666</u>
Net assests end of year	<u>\$ 144,374</u>	<u>\$ 1,456</u>	<u>\$ 141,792</u>	<u>\$ 287,622</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
Year Ended June 30, 2004

	School Nutrition	MDE School Store	Student Built House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 457,508	\$ -	\$ -	\$ 457,508
Cash received from miscellaneous operating activities	-	1,566	-	1,566
Cash payments to employees for services	(296,617)	-	-	(296,617)
Cash payments to suppliers for goods or services	(282,465)	(1,645)	(150,828)	(434,938)
Net cash used in operating activities	<u>(121,574)</u>	<u>(79)</u>	<u>(150,828)</u>	<u>(272,481)</u>
Cash flows from non-capital financing activities:				
State grants received	7,800	-	-	7,800
Federal grants received	158,607	-	-	158,607
Operating loan proceeds	-	-	27,600	27,600
Net cash provided by non-capital financing activities	<u>166,407</u>	<u>-</u>	<u>27,600</u>	<u>194,007</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	<u>(7,222)</u>	<u>-</u>	<u>-</u>	<u>(7,222)</u>
Cash flows from investing activities:				
Interest on investments	<u>1,273</u>	<u>14</u>	<u>-</u>	<u>1,287</u>
Net increase (decrease) in cash and cash equivalents	38,884	(65)	(123,228)	(84,409)
Cash and cash equivalents at beginning of year	<u>86,231</u>	<u>1,521</u>	<u>123,339</u>	<u>211,091</u>
Cash and cash equivalents at end of year	<u>\$ 125,115</u>	<u>\$ 1,456</u>	<u>\$ 111</u>	<u>\$ 126,682</u>

MARION INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
Year Ended June 30, 2004

	School Nutrition	MDE School Store	Student Built House	Total
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	\$ (189,320)	\$ (79)	\$ 18,453	\$ (170,946)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Depreciation	7,640	-	-	7,640
Commodities used	32,096	-	-	32,096
(Increase) in accounts receivable	(34)	-	-	(34)
(Increase) in contract receivable	-	-	(178,000)	(178,000)
(Increase) decrease in inventories	27,099	-	(1,000)	26,099
Increase (decrease) in accounts payable	(154)	-	9,139	8,985
Increase in salaries and benefits payable	1,099	-	-	1,099
Increase in interfund payable	-	-	360	360
Increase in accrued interest payable	-	-	220	220
Net cash used in operating activities	\$ <u>(121,574)</u>	\$ <u>(79)</u>	\$ <u>(150,828)</u>	\$ <u>(272,481)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$32,096 of federal commodities.

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District Wide:				
Foundation Donations	\$ (1)	\$ -	\$ -	(1)
Back to School Fair	625	470	1,081	14
Home School Program	431	8,081	6,963	1,549
Interest	7,256	940	8,196	-
High School:				
Take Charge	1	-	-	1
Trends in Fashion	5	856	850	11
Wellness	615	392	705	302
Foundation Donations	259	-	-	259
Drama	818	511	551	778
Vocal	7,077	9,863	6,745	10,195
Instrumental	321	11,743	10,179	1,885
Miscellaneous	3,709	1,106	588	4,227
Science Club	661	733	924	470
Creative, Inc.	400	-	-	400
Student Newspaper	269	1,932	1,476	725
Musical	5,691	3,394	3,890	5,195
National Honor Society	181	722	861	42
Academic Competition	737	-	36	701
Thespians	1,380	438	513	1,305
French	151	-	-	151
FBLA	(51)	2,475	2,384	40
VTR Technician	7	-	-	7
SODA - Students	325	3,053	2,891	487
Spanish	729	-	-	729
Student Senate	6,079	9,253	11,383	3,949
England Trip	59	4,779	4,232	606
Quill/Yearbook	5,185	6,667	7,722	4,130
Arts & Crafts	3,382	4,190	6,734	838
Class of 2004	47	22	69	-
Class of 2005	2,575	2,468	4,397	646
Class of 2006	1,029	3,149	1,344	2,834
Class of 2007	-	1,774	978	796
General Athletics	41,719	191,308	216,074	16,953
Tom Begley Memorial	227	-	-	227
Athletic Beverages	6,613	11,940	14,509	4,044
Student Vending	2,466	-	2,466	-

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Vernon:				
PEER Helpers	\$ -	\$ 31	\$ -	\$ 31
Foundation Donations	-	-	146	(146)
Vocal	557	670	804	423
Instrumental	113	15,477	14,435	1,155
Honor Band	1,003	3,257	4,098	162
General Activities	567	340	819	88
Library Activities	584	2,249	1,515	1,318
PE/Health	220	80	109	191
Science Club	1,361	23	36	1,348
Student Newspaper	2	1,220	717	505
SODA - Students	3,013	4,015	6,670	358
Quill/Yearbook	813	5,580	5,464	929
Student Magazines	509	31,926	29,564	2,871
Athletics - Coaches	1,298	5,605	4,947	1,956
Athletic Beverages	992	9,833	8,187	2,638
Volleyball Camp	771	2,660	3,428	3
Emerson:				
Library Activities	536	-	-	536
Miscellaneous	424	251	342	333
Foundation Donations	72	-	-	72
Starry:				
Butterfly Garden	191	-	-	191
Miscellaneous	662	252	265	649
Resale	44	-	-	44
Francis Marion:				
Instrumental	504	42	44	502
Miscellaneous	3,204	814	2,448	1,570
SODA - Students	(126)	-	177	(303)
Student Magazines	1,089	8,183	7,544	1,728
Total	\$ 119,380	\$ 374,767	\$ 410,500	\$ 83,647

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 5,452,049	\$ 5,388,765	\$ 5,019,524	\$ 4,989,560
Tuition	3,078,582	2,733,819	2,478,469	2,107,788
Other	544,676	679,824	934,541	786,443
Intermediate sources	3,623	7,011	7,833	11,359
State sources	7,405,475	7,162,859	7,113,970	6,909,556
Federal sources	385,529	331,221	286,256	257,035
Total revenues	<u>\$ 16,869,934</u>	<u>\$ 16,303,499</u>	<u>\$ 15,840,593</u>	<u>\$ 15,061,741</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 7,190,118	\$ 6,491,839	\$ 6,345,380	\$ 5,871,232
Special instruction	2,460,532	2,210,473	2,012,423	1,861,016
Other instruction	1,091,866	1,007,615	1,024,104	932,054
Support services:				
Student services	647,126	613,608	602,489	562,579
Instructional staff services	716,121	661,889	710,187	629,834
Administration services	1,594,679	1,507,089	1,184,029	1,158,954
Operation and maintenance of plant services	1,573,423	1,521,039	1,470,025	1,428,064
Transportation services	383,700	365,960	350,043	255,877
Central and other support services	20,332	16,716	17,407	50,926
Non-instructional programs	6,252	9,204	-	-
Other expenditures:				
Facilities acquisition	457,804	457,577	429,534	300,598
Long-term debt:				
Principal	514,905	498,265	470,035	444,346
Interest and fiscal charges	296,247	312,601	332,440	354,676
AEA flowthrough	498,185	511,333	513,782	503,200
Total expenditures	<u>\$ 17,451,290</u>	<u>\$ 16,185,208</u>	<u>\$ 15,461,878</u>	<u>\$ 14,353,356</u>

See accompanying independent auditor's report.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of  
Marion Independent School District:

We have audited the financial statements of Marion Independent School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 28, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Marion Independent School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Marion Independent School District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-B-04 and II-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marion Independent School District and other parties to whom Marion Independent School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Marion Independent School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa  
October 28, 2004

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

- I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the receiving of cash receipts, posting of the cash receipts to the cash receipts journal, and the bank reconciliations, and the recording and distributing of checks can all be performed by the same person in the various funds.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review procedures and make changes as we deem necessary to improve internal control.

Conclusion – Response accepted.

- I-B-04 Disbursements – Out of forty-one disbursements tested, three were not supported by an invoice or receipt.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation.

Response – We will make sure that all future disbursements are properly supported.

Conclusion – Response accepted.

- I-C-04 Athletic Event Gate Receipts – Prenumbered tickets and a subsequent reconciliaiton to the total gate receipts are not used for all athletic events.

Recommendation – The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of prenumbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – We will review our present procedures and make changes as we deem necessary.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget – Expenditures for the year ended June 30, 2004, exceeded the amount budgeted in the instruction function area.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – We will amend our budget before expenditures exceed the budget.

Conclusion – Response accepted.

II-C-04 Questionable Expenditures – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

<u>Paid To</u>	<u>Fund Used</u>	<u>Purpose</u>	<u>Amount</u>
Crooked Creek Christian Camp	General	Home School outing for students, parents, and teachers	\$2,477

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Board should determine and document the public purpose served by this expenditure before authorizing any further payments. If this practice is continued, the District should establish written policies and procedures, including the requirement for proper public purpose documentation.

Response – We will document the public purpose served for these types of transactions in the future.

Conclusion – Response accepted.

II-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions – We noted no business transactions between the District and District officials or employees.

II-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (continued):

- II-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-04 Financial Condition – We noted that the Special Revenue, Student Activity Fund had several deficit balances within the group of single activity accounts.

Recommendation – The District needs to monitor the activity accounts more closely and investigate alternatives to eliminate the deficit balances.

Response – The Board is aware of the condition and is making strides to eliminate deficit accounts.

Conclusion – Response accepted.

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